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C O N F I D E N T I A L SECTION 01 OF 03 SANTO DOMINGO 005564

SIPDIS

DEPARTMENT FOR WHA/CAR/GILROY AND EB FOR A/S WAYNE  
TREASURY FOR OASIA/NANCY LEE;  
NSC FOR TOM SHANNON

E.O. 12958: DECL: 10/08/2013

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SUBJECT: DOMINICAN PRESIDENT AND TOP ECONOMIC TEAM WORRIED  
ABOUT IFI DELAYS

REF: SANTO DOMINGO 5391

Classified By: CHARGE LISA J. KUBISKE; REASON 1.5 (B AND D).

11. (C) SUMMARY: DURING AN OCTOBER 8 MEETING AT THE NATIONAL PALACE, PRESIDENT MEJIA TOLD THE AMBASSADOR THAT HE IS CONCERNED ABOUT DELAYS IN DISBURSEMENT UNDER THE GODR'S STANDBY AGREEMENT WITH THE INTERNATIONAL MONETARY FUND (IMF), DELAYS IN DISBURSEMENT OF A \$100 MILLION INTER-AMERICAN DEVELOPMENT BANK (IDB) SOCIAL DEVELOPMENT LOAN, AND APPROVAL OF WORLD BANK ELECTRICITY SECTOR LOANS. THE ECONOMIC TEAM IS WORRIED THAT UNCERTAINTY OVER RELEASE OF IFI FUNDS IS EXACERBATING THE COUNTRY'S FINANCIAL DIFFICULTIES AND SENDING THE ECONOMY TOWARD COLLAPSE. THE PRESIDENT OUTLINED GODR ARGUMENTS FOR THE GODR BUYBACK OF ELECTRICITY DISTRIBUTION COMPANIES. HE PROVIDED A COPY OF A LETTER THE GODR HAD SENT TO THE IMF OCTOBER 7 AGREEING TO A KEY IMF REQUIREMENT THAT AN INDEPENDENT COMMISSION BE CREATED TO REVIEW THE GODR'S RECENT AGREEMENT WITH UNION FENOSA, THE SPANISH COMPANY BOUGHT OUT. IN SUBSEQUENT SEPARATE MEETINGS, THE THREE CABINET OFFICIALS MOST DIRECTLY INVOLVED IN THE IMF AGREEMENT EACH TOLD CHARGE THAT THE GODR WAS ON TRACK WITH (OR AHEAD OF) ALL OF THE IMF CONDITIONS FOR RELEASE OF THE SECOND TRANCHE OTHER THAN THE CRITERIA RELATED TO ADDITIONAL SOVEREIGN DEBT (THAT RESULTED FROM REPURCHASING THE ELECTRICITY DISTRIBUTION COMPANIES), AND A REQUIREMENT TO IDENTIFY A SOURCE OF REVENUE IF THE GODR CHOOSES TO OFFSET ELECTRICITY TARIFF INCREASES. THEY EACH CONFIRMED THE GODR REMAINED FULLY COMMITTED TO THE AGREEMENT AND TO FREE TRADE/OPEN ECONOMIC POLICY. END SUMMARY.

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PRESIDENT MEJIA AGITATED  
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12. (C) AMBASSADOR AND EMBOFFS MET WITH PRESIDENT MEJIA SHORTLY BEFORE THE AMBASSADOR DEPARTED POST FOR MEETINGS IN WASHINGTON. A VERY AGITATED PRESIDENT SAID THAT HE WAS CONCERNED ABOUT THE IMPACT FURTHER DELAYS IN RELEASE OF THE SECOND IMF TRANCHE WOULD HAVE ON THE FRAGILE ECONOMIC CONDITIONS IN THE DOMINICAN REPUBLIC. HE ACKNOWLEDGED THAT THE GOVERNMENT'S REPURCHASE OF SPANISH INTERESTS IN TWO OF THE COUNTRY'S THREE ELECTRICITY DISTRIBUTION COMPANIES HAD PRECIPITATED THE DELAY WHILE THE IMF REVIEWED THE IMPACT ON GODR FISCAL COMMITMENTS UNDER THE IMF STANDBY ACCORD SIGNED IN AUGUST (REFTEL). MEJIA SAID THAT THE GODR HAD IMPLEMENTED TIGHT FISCAL DISCIPLINE, BUT DID NOT HAVE OTHER OPTIONS FOR RESOLVING LONG-STANDING PROBLEMS WITH THE SCANDALOUS SPANISH COMPANY UNION FENOSA AND HAD TO REPURCHASE THE SPANISH SHARES OR RISK COMPLETE BANKRUPTCY OF THE SECTOR. MEJIA EXPANDED ON EARLIER REPORTS THAT THE COMPANY HAD ENGAGED IN BUSINESS PRACTICES THAT "ROBBED" THE GOVERNMENT. HE ALLEGED THAT UNION FENOSA HAD EMPLOYED CRIMINALS, INCLUDING U.S. DEPORTEES, AND THAT THESE "BANDITS" WERE ORGANIZED AND HAD DELIBERATELY PROVOKED RECENT ELECTRICITY RIOTS. HE DESCRIBED THE INITIAL PRIVATIZATION OF THE DISTRIBUTION COMPANIES AS A COMPLETE FAILURE.

13. (C) MEJIA EMPHASIZED THE NEED FOR QUICK DISBURSEMENT OF A \$100 MILLION IDB LOAN FOR SOCIAL DEVELOPMENT THAT HAD BEEN PUT ON HOLD PENDING IMF REVIEW OF THE UNION FENOSA DEAL. THE PRESIDENT POINTED OUT THAT THERE WERE 350 PROJECTS -- SUCH AS SCHOOLS, WATER SYSTEMS AND HOUSING -- IN POOR AREAS WHOSE COMPLETION WAS "PARALYZED" DUE TO LACK OF FUNDS. HE PRESENTED A LETTER THAT THE GODR HAD JUST SENT TO THE IMF AGREEING TO AN INDEPENDENT COMMISSION TO REVIEW THE GOVERNMENT'S PURCHASE OF UNION FENOSA AND EXPRESSED HOPE THAT THE LETTER SHOULD MEET THE CONDITIONS FOR RELEASE OF THE SOCIAL DEVELOPMENT LOAN.

14. (C) THE PRESIDENT ALSO RAILED AGAINST THE DOMINICAN BUSINESS SECTOR THAT HAD "PAID CONGRESS" TO REJECT THE RECENTLY-IMPOSED FIVE-PERCENT EXPORT TAX. HE SAID THE COUNTRY DESPERATELY NEEDED ADDITIONAL REVENUE TO MEET IMF FISCAL TARGETS. HE POINTED OUT THAT THE TAX HAD TARGETED SECTORS THAT HAD BENEFITED ROYALLY FROM PESO DEVALUATION AND QUESTIONED THE PATRIOTISM OF COMPANIES THAT OPPOSED THE MEASURE. HE SAID THE GODR WOULD BE FORCED TO LOOK FOR OTHER MEASURES.

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15. (C) IN SUBSEQUENT SEPARATE MEETINGS, TECHNICAL SECRETARY CARLOS DESPRADEL, FINANCE SECRETARY RAFAEL CALDERON, AND CENTRAL BANK GOVERNOR JOSE LOIS MALKUN EACH AFFIRMED TO CHARGE AND ECONOFF THAT THE GODR WAS ON TRACK WITH (OR AHEAD OF) ALL OF THE IMF CONDITIONS FOR RELEASE OF THE SECOND TRANCHE OTHER THAN THE CRITERIA RELATED TO ADDITIONAL SOVEREIGN DEBT (THAT RESULTED FROM REPURCHASING THE ELECTRICITY DISTRIBUTION COMPANIES), AND A REQUIREMENT TO IDENTIFY A SOURCE OF REVENUE IF THE GODR CHOOSES TO OFFSET ELECTRICITY TARIFF INCREASES. THEY SAID THAT THE GODR HAD (1) LIBERALIZED THE FOREIGN EXCHANGE MARKET, (2) TAKEN STEPS TO STRENGTHEN THE BANKING SECTOR, (3) CUT FISCAL EXPENDITURES AND (4) CUT CAPITAL EXPENDITURES. CENTRAL BANK GOVERNOR MALKUN ALSO EXPLAINED THAT THE SUPERINTENDENT OF BANKS WAS WORKING WITH THE IMF FOR A TEAM TO CONDUCT AN AUDIT OF THE BANKING SECTOR, AS REQUIRED IN THE AGREEMENT. THEY EACH INDEPENDENTLY AFFIRMED THAT THE GODR WAS COMMITTED TO THE IMF PROGRAM AND TO FREE TRADE/OPEN ECONOMIC POLICY, UNDER WHICH THE DOMINICAN REPUBLIC HAD PROSPERED IN THE LAST DECADE. MALKUN WENT SO FAR AS TO SAY THAT THE GODR WOULD COMPLETE THE REQUIREMENTS "INDEPENDENT OF THE IMF TAKING FURTHER TIME TO REVIEW."

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UNION FENOSA: THE MAIN OBSTACLE TO IFI SUPPORT  
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16. (C) WITH REGARD TO THE ELECTRICITY SECTOR, THE ECONOMIC TEAM WAS IN AGREEMENT THAT THE GODR HAD TO TAKE STEPS TO CORRECT THE SITUATION WITH UNION FENOSA. MALKUN CONFIDED THAT HE HAD ADVISED THE PRESIDENT TO WAIT THE THIRTY DAYS THE IMF HAD REQUESTED BEFORE SIGNING THE AGREEMENT, BUT EACH DAY THE ELECTRICITY SITUATION WAS GETTING WORSE, AND THE PRESIDENT HAD APPARENTLY ALREADY MADE COMMITMENTS THAT HE FELT HE HAD TO KEEP. TECHNICAL SECRETARY DESPRADEL TOLD THE CHARGE THAT THE PRESIDENT HAD INTELLIGENCE REPORTS ABOUT UNION FENOSA EMPLOYEES PROVOKING RIOTS. DESPRADEL ALSO POINTED OUT THAT AT THE SAME TIME THE IMF WAS ASKING FOR THIRTY DAYS TO REVIEW THE AGREEMENT, THE IDB WAS DEMANDING REPAYMENT OF ITS LOANS. HE EXPLAINED THAT THE ONLY WAY THAT PAYMENT COULD BE MADE WAS THROUGH AN AGREEMENT WITH UNION FENOSA. ALL OF THE ECONOMIC TEAM MEMBERS NOTED THAT THE IMF HAD ORIGINALLY NOT CONSIDERED THAT AS A PARTNER WITH UNION FENOSA, THE GODR WAS OBLIGATED FOR HALF OF THE DISTRIBUTION COMPANIES' DEBTS ALREADY. THEY CLAIMED THAT THE GODR DEBT OBLIGATION ACTUALLY DECREASED UNDER THE REPURCHASE AGREEMENT, SINCE UNION FENOSA RETAINED SOME OBLIGATIONS.

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SOME SECTORS STILL PROSPERING  
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17. (C) FINANCE SECRETARY RAFAEL CALDERON REVIEWED THE COUNTRY'S ECONOMIC PERFORMANCE LEADING UP TO THE CRISIS. HE NOTED THAT THE DOMINICAN REPUBLIC HAD WORKED HARD TO ATTRACT FOREIGN -- ESPECIALLY U.S. -- INVESTMENT, AND THAT THE DOMINICAN ECONOMY HAD LED THE REGION IN GROWTH FOR MOST OF THE PAST DECADE. DESPITE THE MASSIVE BANK FRAUD AND SUBSEQUENT ECONOMIC CRISIS THAT PRECIPITATED THE IMF ACCORD, CALDERON POINTED OUT THAT CERTAIN SECTORS OF THE ECONOMY REMAINED STRONG. HE AND DESPRADEL REPORTED THAT TOURISM, FREE TRADE ZONE EXPORTS, TRADITIONAL EXPORTS AND REMITTANCES FROM ABROAD WERE AT RECORD LEVELS, AFTER RECOVERING FROM DIFFICULT YEARS FROM 2000-2002, (WHICH HAD BEEN DIFFICULT PRIMARILY DUE TO THE SLOWDOWN IN THE UNITED STATES' ECONOMY).

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THE ROAD AHEAD  
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18. (C) ALL OF THE INTERLOCUTORS STRESSED THE NEGATIVE IMPACT THAT THE CURRENT UNCERTAINTY WAS HAVING ON MACRO-ECONOMIC STABILITY. CENTRAL BANK GOVERNOR MALKUN SAID THAT BUSINESSMEN HAVE BEEN HOUNDING HIM TO MAKE A REASSURING STATEMENT TO THE PRESS TO HELP STEM CAPITAL FLIGHT AND A FALLING EXCHANGE RATE. THE ECONOMIC CABINET SAID IT WAS READY WITH THE INFORMATION NEEDED FOR THE IMF TALKS NEXT WEEK IN SANTO DOMINGO. WHAT THEY NEED MOST TO AVOID ECONOMIC COLLAPSE, THEY SAID, IS THE SPEEDY RESTORATION OF THE ANTICIPATED IFI FUNDING. THE GODR HAD INCLUDED THE IMF, IDB AND WORLD BANK DISBURSEMENTS IN ITS PROJECTIONS AND CLAIMS IT CAN NOT HOPE TO MEET IMF TARGETS WITHOUT IT.

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COMMENT  
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19. (C) WE AGREE THAT FURTHER DELAY IN IFI DISBURSEMENTS WILL EXACERBATE A SALVAGEABLE SITUATION. IN THAT REGARD, THE VISIT OF THE IMF TEAM NEXT WEEK IS GOOD NEWS. ONE MAJOR STUMBLING BLOCK HAS BEEN REMOVED WITH GODR CONCURRENCE

OCTOBER 7 TO CREATE AN INDEPENDENT COMMISSION OF  
INTERNATIONAL EXPERTS TO REVIEW THE ENERGY SECTOR AGREEMENT.  
AT OUR MEETING, WE FOUND PRESIDENT MEJIA CLEARLY FRUSTRATED  
BY THE LACK OF FUNDS THE GODR HAD COUNTED ON TO GET THEM  
THROUGH THE FALL. HE WAS ACCORDINGLY SKEPTICAL OF THE  
BENEFITS OF THE IMF AGREEMENT AT THAT MEETING. IN CONTRAST,  
HIS TOP ECONOMIC TEAM -- THE PEOPLE THE IMF WILL WORK WITH  
NEXT WEEK -- WERE CONVINCING IN THEIR COMMITMENT TO FULL  
IMPLEMENTATION OF THE ACCORD. THE IMF WILL WANT TO WORK  
THROUGH THE DEBT IMPLICATIONS OF THE UNION FENIOSA DEAL AND  
GET ASSURANCE ON HOW THE GODR WILL MANAGE THE ELECTRICAL  
SECTOR AND MEET ITS REVENUE COMMITMENTS.  
KUBISKE